INTRODUCTORY STATEMENT

PRESS CONFERENCE

Mario Draghi, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 10 April 2019

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at their present levels at least through the end of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

We intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

Details on the precise terms of the new series of targeted longer-term refinancing operations (TLTROs) will be communicated at one of our forthcoming meetings. In particular, the pricing of the new TLTRO-III operations will take into account a thorough assessment of the bank-based transmission channel of monetary policy, as well as further developments in the economic outlook. In the context of our regular assessment, we will also consider whether the preservation of the favourable implications of negative interest rates for the economy requires the mitigation of their possible side effects, if any, on bank intermediation.

The information that has become available since the last Governing Council meeting in early March confirms slower growth momentum extending into the current year. While there are signs that some of the idiosyncratic domestic factors dampening growth are fading, global headwinds continue to weigh on euro area growth developments. The persistence of uncertainties, related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets, is leaving marks on economic sentiment. At the same time, further employment gains and rising wages continue to underpin the resilience of the domestic economy and gradually rising inflation pressures. However, an ample degree of monetary accommodation remains necessary to safeguard favourable financing conditions and support the economic expansion, and thus to ensure that inflation remains on a sustained path towards levels that are below, but close to, 2% over the medium term. Significant monetary policy stimulus is being provided by our forward guidance on the key ECB interest rates, reinforced by the reinvestments of the sizeable stock of acquired assets and the new series of TLTROs.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP rose by 0.2%, quarter on quarter, in the fourth quarter of 2018, following an increase of 0.1% in the third quarter. Incoming data continue to be weak, especially for the manufacturing sector, mainly on account of the slowdown in external demand, which has been compounded by some country and sector-specific factors. As the impact of these factors is turning out to be somewhat longer-lasting, the slower growth momentum is expected to extend into the current year. Looking ahead, the effect of these adverse factors is expected to unwind. The euro area expansion will continue to be supported by favourable financing conditions, further employment gains and rising wages, and the ongoing – albeit somewhat slower – expansion in global activity.

The risks surrounding the euro area growth outlook remain tilted to the downside, on account of the persistence of uncertainties related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets.

According to Eurostat's flash estimate, euro area annual HICP inflation was 1.4% in March 2019, after 1.5% in February, reflecting mainly a decline in food, services and non-energy industrial goods price inflation. On the basis of current futures prices for oil, headline inflation is likely to decline over the coming months. Measures of underlying inflation remain generally muted, but labour cost pressures have strengthened and broadened amid high levels of capacity utilisation and tightening labour markets. Looking ahead, underlying inflation is expected to increase over the medium term, supported by our monetary policy measures, the ongoing economic expansion and rising wage growth.

Turning to the **monetary analysis**, broad money (M3) growth increased to 4.3% in February 2019, from 3.8% in January. Looking through some volatility in monthly flows, M3 growth continues to be backed by bank credit creation, notwithstanding a recent moderation in credit dynamics. The narrow monetary aggregate M1 remained the main contributor to broad money growth.

The annual growth rate of loans to non-financial corporations rebounded to 3.7% in February 2019, from 3.4% in January, reflecting mainly a base effect. Looking through short-term volatility, the annual growth rate of loans to non-financial corporations has moderated in recent months, reflecting the typical lagged reaction to the slowdown in economic growth. At the same time, the annual growth rate of loans to households remained broadly unchanged at 3.3% in February. The euro area bank lending survey for the first quarter of 2019 suggests that overall bank lending conditions remained favourable.

Our monetary policy measures, including the new series of TLTROs that we announced in March, will help to safeguard favourable bank lending conditions and will continue to support access to financing, in particular for small and medium-sized enterprises.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Regarding **fiscal policies**, the mildly expansionary euro area fiscal stance and the operation of automatic stabilisers are providing support to economic activity. At the same time, countries where government debt is high need to continue rebuilding fiscal buffers. All countries should reinforce their efforts to achieve a more growth-friendly composition of public finances. Likewise, the transparent and consistent implementation of the European Union's fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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One question first of all, you mentioned that in the context of your regular assessment you will consider whether the preservation of favourable implications requires mitigation of possible side-effects on bank intermediation from, I understand, negative rates. You made comments to a similar effect at the Watchers' conference recently, and it sparked a lot of speculation that you might be on the cusp of introducing a tiering system, so I would like to know from you whether that's something that's on the menu; whether that's something that you are considering. That's my first question.

The second is: You also mentioned that we'll get the pricing of TLTROs in the forthcoming meetings. We saw the bank lending survey yesterday. In your assessment in terms of loan growth and loan demand, does it give any indication of the conditions that could underpin the incentive scheme for the next TLTROs?

Draghi: Well, I would say to the second question, I would answer it's too early. It's just too early. If you read the statement I just gave, there is the - we, in a sense, - the Governing Council gives the criteria upon which this assessment for both the TLTRO III and the mitigation of possible side-effects would take place, the conditions under which the analysis would be carried out. It's two conditions. We'll take into account a thorough assessment of the bank-based transmission channel for our monetary policy, as well as further developments in the economic outlook. So we are looking at that, both things, and right now it's too early to decide about both. I would say the Governing Council was, I would say - we didn't vote, so it's not unanimous or anything - but it just had a consensus on the need for further analysis on both issues.

That, in a sense, includes the first question, because this language echoes what I did say in the ECB Watchers' speech, and that's it; we've got to look at that. The way we look is well specified here. We look at the functioning of the financial intermediation channel. As I said, the assessment of the bank-based transmission channel of monetary policy, as well as further developments in the economic outlook. So we have to see how the economic outlook will turn out between now and the next monetary policy meeting. Where, by the way, we also will be having the new projections.

There seems to have been over recent months quite a marked deterioration in the five-year-on-five-year inflation swap rate that suggests markets are becoming more concerned about your ability to hit the inflation target. In the past the fall in this measure was a trigger for the

introduction of QE at the beginning, and the expansion of the QE programmes, so how concerned are you about this, this time around, and how would you intend to react if this fall continues?

The second topic, we've had some remarks from the US president yesterday saying that he's going to impose tariffs on some European goods. To what extent are you concerned by these remarks, and does it represent a serious risk to the euro zone economy if this comes about and if there's an intensification of the trade frictions between Europe and the US?

Draghi: Now, your first question points out the continued deterioration of inflation expectations over the last several months, and we had quite a substantial analysis of why this is so. It's quite clear that the sliding of the five-year-to-five-year inflation expectations corresponds to a deterioration of the economic outlook. It's also quite clear that as the economic outlook, especially the economic activity slows down, also markets expect less pressure in the labour market, but we haven't seen that yet. So we have underlying strength in the economy, and so we analyse why this is so. The answer is that inflation expectations have deteriorated predominantly because of the risk premium, or the negative risk premium, which is a big difference to 2016. You may remember that in the early part of 2016 we had a similar deterioration of inflation expectations. That was different. At that time it was not so much because of the risk premium, but it was a real danger of de-anchoring.

So this is good news in the sense that it says that expectations are responding to the economic outlook, but not de-anchoring. However, this increase in the negative risk premium might reflect either the market perception, that we don't have instruments, and I think we've shown that we have plenty of instruments. If anything, the market reaction to my ECB Watchers' speech last time shows that we have plenty of instruments. Of course, that market reaction demonstrated that markets have fully understood our reaction function. Now, the second possibility is that we may well - I mean, the markets may think - the Governing Council would tolerate low inflation, too low inflation, without being de-anchored, but low. Now, let me just dispel any such impression. Of course, we remain fully committed to return inflation to 2% without undue delay. Also, let me also point out another aspect of this. Our inflation aim doesn't imply a ceiling at 2%; inflation can deviate from our objective in both directions, so long as the path of inflation converges to our medium-term objective.

Now, the second question is about this threat of tariffs from President Trump toward the Europeans. Of course, we listed the threat of protection as one of the potential factors dampening growth in the euro area - and elsewhere in the world, as a matter of fact - so this is not different from this viewpoint. Well, we have to see, first of all, what happens, because as you've seen in the past between words and deeds there is often a big gulf. But certainly, even the fact that these threats are being vented with some frequency, they certainly undermine general confidence, and there is no question about the fact that that's one of the reasons for the general weakness in the euro zone, I believe. Elsewhere in the world the confidence weakening has come from various threats, various vulnerabilities - it's a combination of effects - but certainly also from these threats of further protectionist measures.

So am I correct to assume and understand that you did discuss the precise terms of the TLTROs at today's meeting? The reason I ask is because the June meeting would come just days after you have a new chief economist on board, meaning much of the preparatory work would have to have been done by a predecessor. So do you see the Governing Council putting

off any decision on TLTROs until Mr Lane comes in? That would be at the July meeting, I guess.

A second question is on the tiered deposit rate issue. Did you discuss the merits of this at today's meeting, and might we see this on the agenda of the Governing Council during your tenure?

Draghi: We certainly welcome Philip Lane. He's a great addition to our team, but it's not that we actually put our decision making in our calendar depending on who's going to be on board or not. So let me just separate the two things. You asked me whether we discussed the TLTRO deal. No, we didn't, and I've said this in the beginning, the details of the precise terms of new targeted long-term refinancing operations will be communicated at one of our forthcoming meetings. So the pricing of new TLTROs will take into account two criteria - and I gave the two criteria before - but we haven't discussed that today.

On the second question, we haven't discussed the merits or the cons of mitigation measures either. I don't want to identify that with a specific word, and I never did. So we started a process where we will analyse all measures, and specifically the two that I mentioned in the introductory statement. This analysis is based on these two criteria, and that's it. We need further information. We need further information that will come to us between now and June, and in a sense the projections that we'll have in June by the staff of the ECB will be an important part of this information set. Having said that, Philip Lane is a fantastic addition to our team.

Another question on the issue of deposit rates. Perhaps you can comment on the claims or the numbers which have been given by the head of the German Banking Association? He claimed that the European banks are at a disadvantage of even €50 billion vis-à-vis the American banks. It's well known that the European banks pay around €7.5 billion on the negative deposit rate, and he claimed - and when looking to the US you see they even get a positive rate for their deposits of about €40 billion - so he calculated a €50 billion difference, and that's a big disadvantage, and there's a drag on the European banking system. What's your reply on this?

Draghi: Well, I take note of the fact. It's a fact, and, by the way, so we ask ourselves how much has overall profitability of banks been affected by the negative deposit rate? We are actually in the process of carrying out this analysis. If you compare profitability of banks, I mean, euro zone banks - by the way, we're talking about large aggregates, to the point of being meaningless, because the way this negative deposit rate affects different banking institutions is very different, banks' business models are profoundly different. But in the aggregate we see that profitability of euro zone banks is by and large like the ones in Japan, higher than in the UK, where there is no negative rate, and of course, lower than in the United States. Then, of course, but I did say in my ECB Watchers' speech that we look at this. Well, look, as it says here "We will also consider whether the preservation of the favourable implications of the negative rates" - because we want these implications and the market reaction to my ECB Watchers' speech, basically, made clear that markets understood our reaction function - and it says, [whether] "favourable implications of negative interest rates for the economy require the mitigation of the possible side-effects, if any, on bank intermediation". So we'll look at that.

Your forward guidance has been very clear, but it hasn't had any conditions. You've never articulated any conditions that would imply a change in that forward guidance. Can you give us

any clarification on that, please, particularly on the downside?

Also, have there been any discussions, even in a theoretical sense, about whether, if there's a resumption of QE, equities could or would have to be part of that programme, given the limits on bond buying?

Draghi: Well, really, for the second question, we haven't discussed that. What the Governing Council did today was to assess the outlook, which is a picture of weakening growth, to reiterate confidence in the convergence of the inflation path, based on a series of factors, and then reassert, reiterate the readiness to use all the instruments that are necessary to cope with the contingencies that come ahead. This was, I would say, unanimous, this deliberation to use all the instruments. I did say something at the beginning, this time it's not the right time to say, "I don't like this instrument", or, "I'd rather prefer another one". We are not yet there. Once we will be approaching that point with the information coming about the economy and inflation, we will be better positioned to see whether first, whether further action is needed. By the way, let's not forget the forward guidance has indeed, in the past few months, automatically responded to the weakening economic conditions. Let's not forget, also, that this forward guidance is chained with the horizon over which we'll carry out the repurchases of the bonds.

As you see, it says “we intend to continue reinvesting in full the principal payments for maturing securities purchased under the asset purchase programme for an extended period of time, past the date when we start raising the key ECB interest rates”. So whenever the date when we raise ECB interest rates moves forwards, so does the horizon over which we'll actually undertake the purchases, and in any case for as long as necessary to maintain favourable liquidity conditions, and an ample degree of monetary accommodation. So you see that in the existing toolbox, and enacted toolbox, we already have optionality to extend the existing instruments. But with the statement today, the Governing Council also said that it's plainly open to use all instruments that would be required by the needed contingency as we gather further and further information.

The minutes, actually, are suggesting that some Governing Council members were not really happy to adjust the forward guidance on rates, according to what the market thinks. Some analysts call it backward guidance. You can't be happy with that. So could we get an update on the rate forward guidance as soon as June?

The second question...

Draghi: What is the first question?

The question is whether the minutes...

Draghi: The accounts.

Sorry, the accounts. They are suggesting that some members of the Governing Council are not happy to align the forward guidance on rates with what the market expectations are, so to extend it further in the future. My question is: they call it backward guidance, which can't be what you would like them to think. So do you think it's realistic to assume that we get some more of an alignment in the forward guidance on rates as soon as June or perhaps in the forthcoming meetings?

The second question would be: how big is the risk of a recession for the euro zone?

As you've probably seen - you must have seen from the accounts - there were other members that actually wished a much more extended forward guidance. So this is part of natural discussions we had, and again, like for the other instruments that we briefly mentioned before, we didn't discuss this. It was not - if I have to characterise this meeting - it was not an operational meeting. It was more of a meeting that would characterise the stance of the Governing Council towards further action. In other words, people are acknowledging, Governing Council members are acknowledging the weakening of the cycle, the weakening of the economy. The fact that this weakening will extend into the rest of the year, the weakening of inflation. In fact, I just said that inflation would probably bottom out in September. They acknowledged the sliding of inflation expectations. At the same time, they acknowledged also the underlying strength of the economy, the fact that some of these temporary factors are unwinding, and so it was a meeting where the main goal was to reassert the readiness to act if the contingencies would warrant so. Again, as we move towards June when the new projections will be available, we'll be gathering more and more information.

The estimated probabilities of a recession remain low. Again, there is a difference with 2016, and so that's what we see now. It's still a relatively low probability. You may remember - no, I don't think you would - but just in my ECB Watchers' speech I gave a number of - I think there had been - 50 soft patches in the last 50 years of the euro zone, and only four recessions. So for what it's worth, really, that's historical evidence looking at the past. But overall probabilities of a recession, also implied financial probabilities of a recession, remain on the low side, and certainly less than the same probabilities would look like in past recessions. In other words, in the previous episodes of a recession we would have seen a much higher probability of an oncoming recession than what we see today. But as I said, the Governing Council stands ready to adjust all of its instruments as appropriate, if that contingency were to materialise.

I have two questions. One question is on the mitigation of side effects of negative rates, if any. Are you comfortable with the markets that might read into this, whether there is any measure, a signal on forward guidance, in the sense that if there are less side effects for banks then negative interest rates might stay for longer. So are you comfortable with the market, maybe, reading into it too much?

On the fact that you are looking at two measures on banks, one on a tiered system for deposits on negative rates, and the other on TLTROs, does that indicate somehow that there is a risk that the excess liquidity is somehow trapped into the national banking systems and that there is not enough cross-border lending. And that these two measures are good for some banks in one case, and for some other banks in another case?

Draghi: Well, I'll start with the second question. Clearly, we would wish to have much more cross-border lending than we have. But this is also a part of the ongoing discussion on creating - on finishing - the banking union and creating a capital markets union. It doesn't come naturally. However, what we are observing is that in some countries where credit growth is especially significant, part of this growth can be explained by the participation of banks, especially large banks, in syndicated loans that actually get used in other parts, other than their countries, where these banks are established. So we see some cross-border lending.

In relation to the TLTRO, no, I don't think the liquidity gets necessarily trapped in the countries.

Now, the other question was whether one would associate the presence of mitigating measures with a lengthening of the period during which interest rates remain negative or not. I don't know. I have the sense that you are right; the markets perceive it this way. I don't know what to say, really, because it's a fact that we had negative rates now for many years, and there were no mitigating measures. It's also a fact that the impact of negative rates changes: it's very different when they start, and then when they've been in place for a long period of time. So we also have to assess that. I don't have other things to add to that.

I had a follow-up question on what you were just saying. You talked about the market reaction function to your speech at the Watchers' conference. I mean, does this mean that mitigating those rates would open the door to a rate cut? Would you be able to cut rates deeper, if such a system were in place, and by how much, do you think, and how much would the lower bound fall?

The second question is on what you said about the 2% inflation ceiling, how 2% isn't a ceiling. Does that mean that you'd be happy to overshoot, or aim to overshoot?

Draghi: Well, on your second question I will answer saying exactly the same thing. We don't tolerate too low inflation; we remain fully committed to using all necessary instruments to return inflation to 2% without undue delay. Likewise, our inflation aim doesn't imply a ceiling of 2%. Inflation can deviate from our objective in both directions, so long as the path of inflation converges towards our medium-term objective. I believe I must have said something close to this, or something to this extent a few other times in the past few years.

The other question is this. I mean, many of your questions could be captured by the following question. If you are to introduce mitigating measures for banks, for the side effects of negative interest rates on banks' profitability, would this imply low rates for longer, or lower negative rates? Well, we haven't discussed that. We haven't discussed the introduction of mitigation measures. We said that we want to analyse the side effects, and possibly the mitigating measures. So we are not even discussing the first stage of this reasoning, not even to mention what this would imply. Let me just restate one thing, that the market reaction to the ECB Watchers' speech, whether it was linked to this part or to another part, showed that markets understand our reaction function.

One question on Brexit, if I may? Since there are signs in favour of a longer Brexit today, if the European Council will decide this direction, could you maybe cautiously say something or welcome this possible solution? I want to remind you of the sub question to this, what you said here in January, that Brexit will not affect the EU economy that much. Would you state the same thing today? That is my question on Brexit.

The second one is more on the European elections coming at the end of May, with the possibility of nationalism or populist parties rising. So is it the capacity or ability of the ECB or the national central banks to intervene somewhat in the debate and promote the idea of Europe which is embodied in euro, in the coming weeks?

Draghi: Answering the second question first. Central banks usually don't intervene in the political debate. Central banks can on occasion, and especially the ECB, can certainly defend the European framework and point out to ways to improve on it, to complete it, or to remedy the weaknesses that the recent, and not so recent, experiences have shown. But I don't think central bankers would be right to intervene in that political debate, either in the European context or in a national context. I think I gave two speeches of recent; one in Bologna, and the other one in Pisa, both focusing - the one in Bologna especially - on the fact that in this globalised world where challenges are global, we've got to be together to be truly sovereign, to be true masters of our destinies, because on our own we would have no way to cope with these global challenges. The evidence is in front of our eyes every day. In Pisa the speech was more oriented to explain why the euro has been a very positive experience, and at the same time to identify the weaknesses of the present situation and what we should do to make sure that the benefits of the euro and Europe in general are distributed to everybody.

On Brexit, I think the consequences of Brexit are different, whether it's a hard, disorderly Brexit, or whether it's properly managed and with an adequate transition period. So for me, again, two days, whatever, before the vote - I mean, they're having votes every day - it would not be right to anticipate one thing or another. What is clear, however, is that the whole discussion on Brexit, which has lasted now many years, really, is part and parcel of the overall uncertainty that is hanging over our continent, and I think it's hanging over the UK as well. It's probably unavoidable in very important political discussions, but that's a fact for our economies. Also, we need to look with attention at the real implications of Brexit on the real economy, which, as I've said many times, in the aggregate, if you take the aggregate numbers, you don't see - you wouldn't expect much of an impact given the relative size of the two entities, but there are two important caveats to that. One is that certain countries are especially exposed to the UK economy, and of course they will have consequences, and these consequences may be serious, and these serious consequences are bound to reverberate in the rest of the continent.

The second caution is that the value chains are very extensive, and the ramifications of value chains are also quite broad. So if we are to reach a point where these value chains, which is not at all to be taken for granted, by the way, but if we are to reach a point where these value chains were to be broken, then we can have lots of local and possibly serious effects. But again I'm still hopeful.

I have a question regarding your home country, Italy, because yesterday they cut again the growth forecasts. A lot of economists are very worried that in the next recession Italy will face serious troubles because they will probably have to save and don't have the fiscal capacity to counteract in a recession. So how worried are you about Italy? Also, again, about the decision from yesterday to appoint Yves Mersch to the single supervisory mechanism? Is there anybody who will replace Yves Mersch in his position at the ECB? So will Ms Lautenschläger take over Yves Mersch's role?

Draghi: The data on the Italian economy didn't come as a surprise. There had been already downgrades in the forecast, in the growth forecast for Italy and for the rest of the euro zone, as a matter of fact. So from this viewpoint it's not a surprise. It's quite clear that the priority there is to restore growth and employment, and Italy knows how to do it. It's very important that these priorities are being pursued without causing an increase in interest rates, because increases in interest rates are contractionary. So I think, in simple words, that should be the aim of economic policy now. There.

On your second point, yes, Mr Mersch has been appointed by the Governing Council as Vice-Chair of the SSM. It's, again, another great addition to the SSM team, and the Governing Council also was pleased by that choice. So you asked me about who does what? Oh, the portfolios. Mr Mersch will remain responsible for legal, and the distribution of portfolios will be given, I think immediately after the press conference, on our website. But I can anticipate that the rest of Mr Mersch's portfolio, and some of Mr Coeuré's portfolio will go to Ms **Lautenschläger**. So it's a rearrangement, different combinations.

Olli Rehn has called for a re-examination of the monetary policy framework, something the Fed is already doing. Would price level targeting be one possible measure the ECB could adopt?

My second question was: according to the accounts, rather than the minutes, of last month's monetary policy meeting, it was highlighted that growth might not be mean-reverting, as typically assumed in projections. Do you think this reinforces the need for such a re-evaluation?

Draghi: You're asking me a very difficult question, which has not been addressed by the Council, and we'll have to see exactly what it means, what it's driving, whether it's justified or not. So we have to see. It's just one statement. But having said that, the Fed is embarking on a revisitation of the monetary policy framework, and again, we have to see what's going to come out of that. These are not processes that can be discussed in one or two meetings, so it may take several months.

You mentioned a couple of minutes ago the benefits of cross-border banking. As you know, there's discussion about a big banking consolidation here in Frankfurt. I'm sure you don't want to speak about specific banks, but as a general principle, would it perhaps be more beneficial for banks to be looking for mergers across borders rather than creating bigger domestic banks.

A related question: I wonder if you can tell us anything about what role the ECB as banking supervisor might play when there's a major banking consolidation in terms of oversight. For example, would you be seeking, perhaps, require banks to raise more capital, or even try to block a merger if you thought it was unwise? I wonder if you can tell us, generally, what the ECB's approach will be.

Draghi: Second question. The role of a supervisor when witnessing mergers is one where you want to make sure that the transaction is successful, and to be successful means that it not only pleases shareholders, but actually creates an entity which is strong, and capable of coping with the various challenges. I think that the role of the supervisor is not necessarily one where it wants to address the agents towards a certain direction, unless the direction they've chosen is leading to a suboptimal outcome.

The first question was about cross-border mergers. I don't think there is a clear preference toward that - I don't think so - that's my own view. There isn't a clear preference towards having one or the other. What is pretty clear, however, is that the banking system in Europe is overcrowded. The need for consolidation is very, very significant. Part of the structural weakness of the banking system in Europe is caused by the overcapacity in banking, which is not overcapacity in the sense that there is little production of credit; it's overcapacity in terms of number of people, number of branches, costs. We're talking about countries where their banks have a cost income ratio of over 80%, 90%, and they even quarrel about negative deposit rates as being one of the causes of their lack of profitability. I think I'd rather think about this. I'd rather think about the low level of digitalisation. I think there are a series of actions that improve the business model and rationalise the business model. That can be achieved, however, only through consolidation. So there is an issue about, there is a relationship between scale and the capacity to undertake the investments that are needed to improve technology and be competitive, especially in certain business models. I wouldn't argue that all business models are like that, but certainly in some of them there's this situation.

You talked about the toolbox that you've got, but you've had ten years of LTROs, TLTROs, negative rates, Quantitative Easing. You're still not at 2%; you're still not even really close to it. If anything, your core inflation rate is still trending downwards slightly. What makes you think that the same toolkit will get you to 2% in the future? Aren't you going to need something that you haven't even dreamt up yet?

Draghi: Well, let me just say, first, it's not ten years. It's several years we've been having this in place, and we've changed instruments, and frankly, the outcome, the results of our monetary policy action is in front of our eyes. Ten million more jobs. You may remember how the situation was in 2015, 2014, 2012. So we had to cope with a series of crises really produced by the great financial crisis. The improved conditions all across the board are a testimony that our action has been quite effective. The issue that you are mentioning is that we don't see inflation going toward our objective as fast as we had expected, and there are reasons for that. We mentioned what the reasons are, and we mentioned that the risks are tilted on the downside. Does it mean that we ought to raise interest rates in the meantime, since our rates so far have not produced any outcome? Of course the answer is no. Our monetary policy has been quite effective. As a matter of fact it is one of the reasons why we are confident that the inflation rate will converge to our objective. If we didn't have that monetary policy we would still be less confident. If we are to raise interest rates, we would become less confident of such an outcome. So we've done, the ECB has done a lot. The environment proved much more challenging than was expected, say, three years ago. In 2017, world growth was more buoyant, exports especially. The external component is what's weighing on growth now, and that is not going to last. Actually, we see signs of stabilisation. So that is the way I would answer your point.

How does the ECB's financial policy affect my life, and the life of our viewers?

Draghi: The outcome of our discussions, basically, determines how cheap or how expensive it is to borrow money. Nowadays, interest rates are very low, which means that borrowing is cheap, which means that you can borrow money to buy a house, or a car, or other consumption goods more easily. The same thing is true for companies. Companies can borrow more easily to buy machines, equipment. This means that they will create jobs, and in due time this means - and we are seeing it - that wages will go up. Wages are actually going up, going up finally and well-deservedly in all countries, but of course, especially in Germany. This, in due time, will produce also price increases, and prices will go up. That's what we do. That's what we look at.

Before we say goodbye to each other, I wish to acknowledge one thing. This was the last monetary policy meeting for Peter Praet. Usually what happens is that Peter comes in on the day before and he presents a vast, ample, and quite detailed explanation of the economic outlook, going from the rest of the world, and then zeroing in on Europe, gradually. Then the day after he presents his views on what sort of monetary policy action we should consider, undertake, analyse, or anything like that. Much of what I say in the press conferences and what I read in the introductory statement has been based on his work, on work that he and his staff and the team and the rest of the ECB does with him. So I would like to take this opportunity to express my deepest thanks to him.

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